

## **Purpose**

The Check Clearing for the 21<sup>st</sup> Century Act requires the Board of Governors of the Federal Reserve System to study the implementation of the law and its effect on various aspects of check processing, including funds availability, and to report the results of the study to Congress by April 28, 2007. Specifically, Congress directed the Federal Reserve to study and report to Congress on the following:

- (1) The percentage of total checks cleared in which the paper check is not returned to the paying bank
- (2) The extent to which banks make funds available to consumers for local and nonlocal checks prior to the expiration of maximum hold periods
- (3) The length of time within which depository banks learn of the nonpayment of local and nonlocal checks
- (4) The increase or decrease in check-related losses over the study period
- (5) The appropriateness of the time periods and amount limits applicable under sections 603 and 604 of the Expedited Funds Availability Act, as in effect on the date of enactment of the Check 21 Act.

To assist in its evaluation of these issues, the Board is conducting this survey to gather data from a nationally representative sample of depository institutions. The sample will include commercial banks, savings institutions, and credit unions. The survey is voluntary.

## **Instructions**

As a survey participant, your responses may be used to represent other institutions like yours that were not selected for the study. To achieve the most reliable results, it is important that you respond completely and accurately. If your institution outsources payments processing to another organization, please request the necessary data from that organization.

The information collected from the survey will be released on an aggregated basis only. Individual responses will be kept confidential.

## **Survey period**

For questions exploring check losses (section II), the survey asks for data covering calendar year 2005. For all other questions (sections III, IV, and V), the survey requests data for the month of March 2006.

## **Responding to survey questions**

Please report only for your chartered depository institution and not for any affiliated institutions.

Please leave no item blank. There are two possible ways to answer a survey question.

Enter a value if your institution has the actual value or an estimate of the data element (enter 0 if the value is zero). Please round all percentages to the nearest whole percent.

Enter DK (don't know) if your institution has volume of the type being measured, but you are unable to report at least an estimate for your organization. Please do not enter NA.

## **Reporting estimated data**

Your institution may not routinely maintain data statistics in the same categories or in the same detail requested on the survey form. If you are unable to give a precise response, we encourage you to provide an estimate. Please check the estimate box (Est. ☐) if your response is an estimate.

## **Questions about the survey**

If you have any questions about how to complete this survey, please call (866) 351-6802.

**Completed survey**

Institutions are encouraged to complete the survey by visiting [www.federalreserve.gov/\[to be provided\]/](http://www.federalreserve.gov/[to be provided]/). Please use the user ID and password provided in the cover letter to access the survey.

Alternatively, institutions may complete the attached paper version of the survey and fax it to (866) 351-6802. Please include the name and phone number of a person whom we can contact should there be questions about your responses.

All responses are requested by May 1, 2006.

## Glossary

Several of the terms used in the survey are defined in Regulation CC. For those terms, the definitions provided below are summaries and you should refer to Regulation CC for a more complete definition.

**ARC payments** (accounts receivable entries) means consumer checks received at a lockbox or drop-off location that are converted to automated clearinghouse (ACH) payments for processing.

**Bank** means depository institution, including commercial bank, savings institution, or credit union.

**Bank of first deposit** means the depository bank; the first bank at which a check is deposited.

**Cases** means the number of incidents in which the bank incurred check losses. A case may involve one or more checks.

**Check** means a negotiable instrument drawn on a bank. For this study, please follow these guidelines:

Checks include

- Checks written by individuals, businesses, or government entities
- Share drafts
- Money orders
- Official checks (for example, cashier's checks, teller's checks)
- Traveler's checks
- Payable through drafts

Checks do not include

- Deposit slips
- General ledger tickets
- Other non-check documents, such as payment coupons
- Checks handled as an intermediary bank (correspondent check volume)
- ARC payments

**Check losses** means financial losses incurred by a bank related to processing check payments in which the bank was unable to recover losses from its customer. Losses reported for this survey should only include the value of the check and should only include losses incurred by the bank. Losses should be reported before recoveries associated with the checks identified. Internal check fraud (by employees) is not to be included unless it was part of an organized effort that involved parties outside the bank.

**Consumer account** means a transaction account used primarily for personal, family, or household purposes.

**Electronic check presentment** (ECP) means the presentment of checks electronically to the paying bank when the delivery of paper checks to the paying bank is not necessary for legal presentment.

**Exception holds** means the safeguard provisions that allow a bank to extend the time to make funds available beyond two business days for local checks and five business days for nonlocal checks under Regulation CC. The safeguard exception holds are for new accounts, accounts with repeated overdrafts, aggregate deposits exceeding \$5000, reasonable cause to doubt collectibility, and emergency conditions.

**Image presentment** means electronic check presentment when an image of the check and the MICR line are included in the data sent to the paying bank. Under image presentment, the delivery of paper checks to the paying bank is not necessary for legal presentment.

**Local check** means a check payable by a local paying bank. A local paying bank is a paying bank located in the same Federal Reserve check processing region as the bank of first deposit.

**MICR line presentment** means electronic check presentment when only the MICR line of the check is included in the data sent to the paying bank. Under MICR line presentment, the delivery of paper checks to the paying bank is not necessary for legal presentment.

**Next-day availability check** means a check deposited in an account that must be made available for withdrawal no later than the business day after the banking day on which the funds were deposited. Types of checks with next-day availability include, under certain conditions, on-us checks, Treasury checks, U.S. Postal Service money orders, Federal Reserve Bank or Federal Home Loan Bank checks, state or local government checks, and cashier's, certified, or teller's checks.

**Nonlocal check** means a check payable by a nonlocal paying bank. A nonlocal paying bank is a paying bank not located in the same Federal Reserve check-processing region as the bank of first deposit.

**On-us check** means a check payable by the same bank that is also the bank of first deposit. Some banks call these "on-us by-us" checks.

**Paying bank** means the bank by, through, or at which a check is payable and to which it is sent for payment or collection.

**Recoveries** means check losses that were written off by the bank but subsequently recouped. Write offs do not include checks that are immediately charged back to a customer's account that has funds to cover the loss.

**Returned check** means a check that a paying bank returns unpaid to the bank of first deposit.

**Regulation CC** means the Federal Reserve Board regulation implementing the Expedited Funds Availability Act and Check Clearing for the 21<sup>st</sup> Century Act. The regulation specifies funds availability schedules with which banks must comply and procedures for returning checks. It also contains rules related to substitute checks.

**Substitute check** means a paper reproduction of an original check containing an image of the front and back of the original check and printed in accordance with ANSI X9.100-140. A substitute check is legally the same as the original check provided it meets Regulation CC's requirements for legal equivalence.

**Transaction account** means an account, such as demand deposit, NOW account, share draft account, or other checkable deposit account, that can be used to make fund transfers or withdrawals using paper or electronic payment instruments, such as a check or debit card. A transaction account does not include a savings account, which is limited to six transfers or withdrawals per month, as defined in the Federal Reserve Board's Regulation D.